

Ashley District Library
Financial Statements
With Supplemental Information

June 30, 2005



Ashley District Library
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INDEPENDENT AUDITOR'S REPORT

Ashley District Library
Ashley, Michigan

We have audited the accompanying financial statements of governmental activities and each major fund of Ashley District Library (the Library) as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Ashley District Library, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2005, on our consideration of the Library's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page I, and budgetary comparison information on page 10, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Library's basic financial statements. The supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 1, 2005

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**ASHLEY DISTRICT LIBRARY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

This section of Ashley District Library's annual financial report presents our discussion and analysis of Ashley District Library's financial performance during the year ended June 30, 2005. Please read this section in conjunction with the financial statements that immediately follow this section.

The net assets of the District Library on June 30, 2005 were \$32,275. This total is an increase of \$4,758 over the total of net assets of \$27,517 available at the beginning of the year. The principal reason for the increase in net assets was due to increased revenues from county penal fines that were not anticipated. Expenditures were similar to previous years with the most significant expenditure being the annual lease of \$24,000 paid to the Ashley Community Schools for use of the school's facility as the district library. Other expenditures were within or below final budgeted amounts.

Actual revenues exceeded original budgeted amounts by \$5,182 or 14.5%. Penal fines, the primary source of revenue for the district library, are not forwarded to the library until after the original budget is adopted in July.

The district library pays an annual lease amount of \$24,000 to Ashley Community Schools for use of the school's library facility. This amount represented 65% of the total actual expenditures of the district library for 2005. Ashley Community Schools pays all utilities, repairs and maintenance, cleaning and custodial, and salary and benefits of the librarian.

The Ashley District Library accounts for its revenues and expenditures in its general fund and has no other account funds.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

Ashley District Library
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Cash - Checking	\$12,187
Certificate of Deposit	<u>20,088</u>
Total Assets	<u><u>\$32,275</u></u>
LIABILITIES AND NET ASSETS	
Net Assets	
Unrestricted	<u>\$32,275</u>
Total Liabilities and Net Assets	<u><u>\$32,275</u></u>

See Accompanying Notes To Financial Statements

Ashley District Library
Statement of Activities
June 30, 2005

Functions	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
Recreation and Cultural	<u>\$36,879</u>	<u>\$39,926</u>	<u>\$1,405</u>	4,452
General Revenues				
Unrestricted Investment Income				186
Donations				<u>120</u>
Total General Revenues				<u>306</u>
Change in Net Assets				4,758
Net Assets - Beginning of Year				<u>27,517</u>
Net Assets - End of Year				<u>\$32,275</u>

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Ashley District Library
Balance Sheet - Governmental Funds
June 30, 2005

	<u>General Fund</u>
ASSETS	
Cash - Checking	\$12,187
Certificate Of Deposit	<u>20,088</u>
Total Assets	<u><u>\$32,275</u></u>
LIABILITIES AND FUND EQUITY	
Fund Equity	
Fund Balance - Unreserved	<u>\$32,275</u>
Total Liabilities And Fund Equity	<u><u>\$32,275</u></u>

See Accompanying Notes To Financial Statements

Ashley District Library
Statement Of Revenues, Expenditures, And Changes In Fund Balances
Governmental Funds
Year Ended June 30, 2005

	General Fund
Revenues	
Local Sources	
Penal Fines	\$39,926
Donations	120
Interest Income	186
	<hr/>
Total Local Sources	40,232
State Sources	
State Aid	1,405
	<hr/>
Total Revenues	41,637
	<hr/>
Expenditures	
Recreational And Cultural	
Library	
Books And Videos	4,482
Subscriptions	193
Building Lease	24,000
Supplies	858
Summer Program	648
Memberships	1,492
Workshops & Conferences	195
Professional Development / Mileage	278
Librarian	1,602
Miscellaneous	497
Small Equipment Purchases	2,634
	<hr/>
Total Expenditures	36,879
	<hr/>
Excess Of Revenues Over (Under) Expenditures	4,758
	<hr/>
Fund Equity - July 1	27,517
	<hr/>
Fund Equity - June 30	\$32,275
	<hr/>

See Accompanying Notes To Financial Statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ashley District Library (the Library) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Library.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Library’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library’s activities
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Library has implemented the provisions of Statement No. 34 effective July 1, 2005.

Reporting Entity

The Ashley District Library was established June 15, 1998 under the District Library Establishment Act, 1989 PA 24, as amended. The Library district consists of the municipalities of Ashley Community Schools, Elba Township, Chapin Township, Marion Township, Hamilton Township, North Star Township, and Washington Township.

A Board consisting of 8 trustees governs the Library. The Ashley Community Schools board appoints two of the trustees to the Library board to represent the School District. Each of the six Townships appoints one trustee to represent their respective Township.

Government-Wide and Fund Financial Statements

The Government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Library. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the Government-wide activities are considered governmental activities.

Ashley District Library
Notes To Financial Statements
June 30, 2005

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including intergovernmental payments, not properly included among program revenues, are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Library's policy to use restricted sources first, then unrestricted resources as they are needed.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

The Library reports the following major governmental funds:

The general fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Budgetary Data

Budgets are adopted by the Library for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the line item level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are stated at fair value.

Michigan Compiled Laws, Section 129.91, authorizes the Library to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Library's deposits are in accordance with statutory authority

Inventories

The Library does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the Government-wide financial statements. Capital assets are defined by the Library as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Ashley District Library
Notes To Financial Statements
June 30, 2005

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the Government-wide financial statements.

As of June 30, 2005, Ashley District Library did not have any assets that meet the requirement for capitalization.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Combining Statements

The Library has only one fund; therefore, combining statements are not necessary.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the line item level and have been presented at the line item on page 3 of this report. During the year ended June 30, 2005, the Library incurred expenditures in excess of the amounts budgeted as shown on page 3 of this report.

NOTE 3 - DETAIL NOTES

Cash and Investments

At June 30, 2005, the carrying amount of the Library's cash and cash equivalents was as follows:

Checking Account	\$12,187
Certificate Of Deposits	20,088
Total	\$32,275

At year-end, the carrying amount of the Library's cash deposits was \$12,187 and the bank balance was \$12,221. Of the bank balance, all of it was covered by federal depository insurance.

Related Party Transactions

Ashley District Library has entered into an operating lease for the use of the Ashley Community School's library facilities. Ashley Community Schools appoints two of the eight board members.

Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreement is not reflected in capital assets. The annual lease for the year ending June 30, 2005 was \$24,000.

Risk Management

The Library is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Library has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year. The Library is required to indemnify Ashley Community Schools and each of the six member Townships against all claims arising from or relating to the operation by the Board of Trustees of the Library.

Dissolution

If the Library is dissolved, all tangible and intangible assets of the Library acquired by the Library during its existence shall be conveyed to the Ashley Community Schools to be used for the purpose of providing library services.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

Ashley District Library
Statement Of Revenues, Expenditures, And Changes In Fund Balances
Budget And Actual - General Fund
Year Ended June 30, 2005

	General Fund			
	Original	Final	Actual	Variance
Revenues				
Local Sources				
Penal Fines	\$35,671	\$34,900	\$39,926	\$5,026
Video Rental	50	50	-	(50)
Donations	100	100	120	20
Interest Income	-	-	186	186
Total Local Sources	35,821	35,050	40,232	5,182
State Sources				
State Aid	1,500	1,000	1,405	405
Total Revenues	37,321	36,050	41,637	5,587
Expenditures				
Recreational And Cultural				
Library				
Books And Videos	3,500	4,500	4,482	18
Subscriptions	400	400	193	207
Building Lease	24,000	24,000	24,000	-
Supplies	1,000	1,000	858	142
Summer Program	600	800	648	152
Professional Services	2,000	2,000	-	2,000
Memberships	2,400	2,000	1,492	508
Workshops And Conferences	500	500	195	305
Professional Development / Mileage	250	300	278	22
Librarian	-	5,000	1,602	3,398
Miscellaneous	-	500	497	3
Capital Outlay	5,350	5,000	2,634	2,366
Total Expenditures	40,000	46,000	36,879	9,121
Excess Of Revenues Over (Under) Expenditures	(2,679)	(9,950)	4,758	14,708
Fund Equity - July 1	24,494	24,494	27,517	3,023
Fund Equity - June 30	\$21,815	\$14,544	\$32,275	\$17,731

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Ashley District Library
Ashley, Michigan

We have audited the financial statements of the governmental activities of Ashley District Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements and have issued our report thereon dated December 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

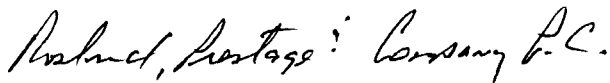
Internal Control over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 1, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the audit committee, management, others within the organization, Board of Trustees, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 1, 2005



RECEIVED

DEPT. OF TREASURY

MANAGEMENT LETTER

JAN 04 2006

LOCAL AUDIT & FINANCE DIV.

Board of Trustees
Ashley District Library
Ashley, Michigan

In planning and performing our audit of the financial statements for Ashley District Library for the fiscal year ended June 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 1, 2005 on the financial statements of Ashley District Library.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 1, 2005

Prepare Monthly Bank Reconciliations

In order to make the financial reports generated by the accounting system as meaningful as possible, management should reconcile the general ledger accounts for cash to the bank and to the financial statements on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. Monthly cash reconciliations also help to determine that all cash transactions have been recorded in the financial statements. Copies of all reconciliations should be maintained in a separate file along with the related bank statements.

Have One Or More Board Members Review Bank Statements And Reconciliations

We recommend that one or more Board members open the bank statements and review them for any unusual checks or other transactions before giving them to accounting personnel to perform the reconciliation. We also recommend that one or more board members review and initial the completed bank reconciliations. The members from the Board should be separate from the individual preparing the reconciliations. The Board's review of the bank statements and reconciliations will ensure that the Board is aware of unusual items, if any, and that they are investigated on a timely basis.

Organizational Structure

The size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that all Library Board Members remain involved in the financial affairs of the organization to provide oversight and independent review functions.

General Ledger

The financial statements for the Library are limited to an income statement that is currently maintained manually and involves a significant amount of manual postings and mathematical calculations. During our audit we observed that the general ledger was not maintained for the cash accounts or beginning fund balance.

We strongly recommend that all activity be posted to a formal general ledger system, preferably a computerized one, on a monthly basis. This will reduce the number of errors, reduce the time involved in posting and extending the account activity, and help to provide a more timely and accurate ledger in which to prepare financial statements and other useful financial reports.

Support for Cash Disbursements

During the audit we noted that several checks written did not have corresponding support for the expenditure on file.

We recommend that the Library adopt a policy requiring support for all expenditures be maintained on file. In this way, questions that may arise regarding specific expenditures can be substantiated by third party support. This policy will also assist the Library in it's continuing effort to reduce the possibility of fraud.